King County Investment Pool

Portfolio Review

Quarter Ended December 31, 2017

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Executive Summary

Purpose, Scope and Approach	• PFM Asset Management LLC ("PFM") prepared this report to update our ongoing analysis and to address any Investment Pool developments since our September 2017 review. Our approach included a detailed portfolio analysis and Investment Policy Compliance review, based on the County's Investment Policy, dated July 26, 2017. • Our analysis was based on the Investment Pool's holdings as of December 31, 2017, with reference to holdings in past periods. • The review encompasses all current investments in the County's Investment Pool.
Investment Program and Portfolio Review	• PFM reviewed the County's portfolio with respect to Investment Policy Compliance, Sector Allocation, Issuer Concentration, Credit Quality, Maturity Distribution, and Duration Distribution. • The County's Investment Pool appears to provide ample liquidity, is well diversified, and is of sound credit quality. All holdings are investment grade and pose very low risk to principal.
Market Recap	• After months of build-up and speculation, Congress passed a controversial tax cut bill in late December. This new legislation, the first major tax reform since 1986, lowers the corporate tax rate to 21% from 35%, while also lowering individual tax rates. Early assessments suggest a positive economic reaction for the near-term. • At its December meeting, the Federal Open Market Committee (FOMC) raised the overnight fed funds target rate for the third time in 2017, to a new range of 1.25% to 1.5%. Despite two dissenting votes to keep rates unchanged in December, Federal Reserve (Fed) Governors and many investors anticipate another three hikes in 2018. Over the quarter, the 10-year Treasury yield was up 7 bps while the two-year yield rose 40 bps. • Final tallies for second and third quarter U.S. gross domestic product (GDP) were 3.1% and 3.2%, respectively. This is the first time since 2014 that the U.S. economy grew at more than 3% in back-to-back quarters. Economists raised projections for growth over the next year to the 2.5 - 3% level with consumer spending and private investment bolstering those estimates. • The December jobs report showed the economy added 148,000 jobs—a disappointing result. Overall, 2017 averaged 171,000 jobs added per month, a bit below the 221,000 per year for the prior three years. Other key labor market indicators were unchanged including the low unemployment rate and the trend of modest wage growth. • Inflation, which has the potential to be the primary deterrent to future Fed rate hikes, remains well below the Fed's target of 2%. Core personal consumption expenditures (PCE), year-over-year, have posted sub-two percent levels for consecutive months since May 2012.
Observations	• The portfolio is of very high credit quality. The majority of securities (80%) are explicitly guaranteed or carry a high level of support by the U.S. Government (U.S. Treasury and Federal Agency) and/or possess overnight liquidity (Washington State LGIP, bank deposits, and repurchase agreements). • Notable sector allocation shifts over the quarter included increases in Supranational Agencies (+3.21%), Commercial Paper (+2.24%) and Repurchase Agreements (+1.06%), and decreases in the Washington State LGIP (-2.93%), Corporate Notes (-1.50%), and US Treasuries (-1.21%). • The County continued to diversify its issuers over the quarter with purchases of commercial paper with United Parcel Service, as well as Supranational Agency holdings with the Inter-American Development Bank & the European Bank of Reconstruction & Development. • Due to the amount of purchases in the 1- to 3- year range, the Pool extended duration over the quarter from 85% of the benchmark's duration for the third quarter of 2017, to 89% of the benchmark's duration of 1.14 years for the fourth quarter. • The County Pool appears to provide adequate liquidity, with 11% (or $811 million) invested in a combination of the State LGIP, bank deposits, and repurchase agreements (overnight) and an additional 4.5% of the portfolio's holdings scheduled to mature within the next 31 days. • In anticipation of the upcoming quarter, during the first quarters of the past five years, the average net <u>outflow</u> from the Pool was $192 million

Investment Pool Portfolio Review

<u>**Portfolio Review**</u>

I. **Investment Policy Compliance**

II. **Sector Allocation**

- U.S. Treasuries
- Federal Agencies
- Supranational Agencies
- Commercial Paper
- Corporate Notes
- Repurchase Agreements
- LGIP and Cash Equivalents

III. **Issuer Concentration**

IV. **Overall Credit Quality**

V. **Maturity and Duration Distribution**

Investment Policy Compliance – Investment Policy Summary

- The Investment Policy summary is based on the current Investment Policy for the County Investment Pool, dated July 26, 2017.

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
U.S. Treasuries	100%	None	N/A	Up to 5 years
U.S. Agencies	100%	35% exposure to any single Agency	Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States.	Up to 5 years
Repurchase Agreements – Top Tier Rating (A-1 or P1)	100%	100% for repurchase agreements with the Federal Reserve Bank of New York 25% maximum exposure to any one repo counterparty. For the purposes of aggregating issuers across sectors, overnight repo counterparties are not included.	The counterparty must have: 1. A rating in the highest short-term credit rating category by at least one Nationally Recognized Statistical Rating Organization (NRSRO) or possess a guarantee by an entity with such a rating; and 2. A minimum asset and capital size of \$5 billion in assets and \$175 million in capital	60 days or less
Repurchase Agreements – Second Tier Rating (A-2 or P-2)	10%	5% maximum exposure to any one repo counterparty. For the purposes of aggregating issuers across sectors, overnight repo counterparties shall NOT be included.	1. A rating in the second highest short-term credit rating category by at least one Nationally Recognized Statistical Rating Organization (NRSRO) or possesses a guarantee by an entity with such a rating; and 2. A minimum asset and capital size of \$5 billion in assets and \$175 million in capital	Overnight only
Reverse Repurchase Agreement	20%	5% per investment dealer	1. rated in the highest short-term credit rating category by at least one NRSRO or possesses a guarantee by an entity with such a rating; and 2. a minimum asset and capital size of \$5 billion in assets and \$175 million in capital	6 months or less
Local Government Investment Pool ("LGIP")	25%	State of Washington LGIP	N/A	N/A

Investment Policy Compliance – Investment Policy Summary (cont'd)

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Bankers' Acceptances	25% When combined with Term Repos (greater than overnight), Certificates of Deposit, Commercial Paper and Corporate Notes not to exceed 50% of the Pool assets.	Must be issued by a bank organized and operating in the U.S. Maximum 5% per issuer applied across investment types.	Rated in the highest short-term credit rating category by at least two NRSROs.	Up to 180 days
Certificates of Deposit	25% When combined with Banker's Acceptance, Term Repos (greater than overnight), Commercial Paper and Corporate Notes not to exceed 50% of the Pool assets.	Must be a public depository in the State of Washington. Maximum 5% per issuer applied across investment types.	See RCW 39.58 of the state Code. If not 100% collateralized, must be rated in the highest short-term rating category by at least one NRSRO. Those institutions not meeting the 100% collateralization or minimum credit requirements may receive deposits up to the FDIC or federally guaranteed amounts.	Up to 1 year
Commercial Paper	25% of total market value when combined with Corporate Notes. When combined with Banker's Acceptance, Certificates of Deposit, Term Repos (greater than overnight) and Corporate Notes not to exceed 50% of the Pool assets.	Secondary market purchases only. Must be issued by a bank or corporation organized and operating in the U.S. Maximum 3% per issuer in combined categories of commercial paper and corporate notes. Maximum 5% per issuer applied across investment types.	Purchases with greater than 100 days maturity must have an issuer long-term rating in one of the three highest credit rating categories by one major NRSRO. Rated in the highest short-term rating category by at least two major NRSROs. If the commercial paper is rated by more than two major NRSROs, it must have the highest rating from all of the organizations. State law requires that Commercial Paper be purchased only from dealers.	270 days
General Obligation Municipal Bonds	20%	5% of portfolio: bond issues by pool participants must be purchased on the secondary market only	Rated in at least the highest three long-term rating categories by at least one NRSRO.	5 years

Investment Policy Compliance – Investment Policy Summary (cont'd)

Type	Maximum Portfolio Allocation	Issuer Restrictions	Credit Ratings	Maturity Restrictions
Mortgage-Backed Securities	25%	Must be issued by Federal Agencies of the United States. Investments in MBS will count toward the total that can be invested in any one agency as described in U.S. Agencies above. Full faith and credit MBS are limited to 25%.	Senior debt obligations issued by any government sponsored enterprise, agency or instrumentality of the United States. The securities must pass the Federal Financial Institutions Examination Council ("FFIEC") suitability test, which banks use to determine lowest risk securities.	5 year average life at time of purchase
Corporate Notes	25% of total market value when combined with commercial paper When combined with Banker's Acceptance, Certificates of Deposit, Commercial Paper and Term Repos (greater than overnight) not to exceed 50% of the Pool assets.	3% per issuer rated AA or better. 2% per issuer rated in broad single A category. Split ratings will take most conservative rating. Maximum 3% per issuer in combined categories of commercial paper and corporate notes. Maximum 5% per issuer applied across investment types.	Must be rated at least in the broad single A category or better. Broad single A category with a negative outlook may not be purchased.	5 years The maximum duration of the corporate notes portfolio shall not exceed 3 years.

Additional Notes to the Investment Policy

- The Pool will maintain an effective duration of 1.5 years or less.
- The Pool will maintain at least 40% of its total value in securities having a remaining maturity of 12 months or less.
- Floating rate and variable rate securities are permitted subject to the following criteria:
  1) The rate on the FRN/VRN resets no less frequently than quarterly; and
  2) The FRN/VRN is indexed to a money market rate.
- Major NRSRO is defined as Moody's and Standard & Poor's.
- Purchases prior to 9/15/16 are considered grandfathered in for issuer limit purposes and can be held to maturity.

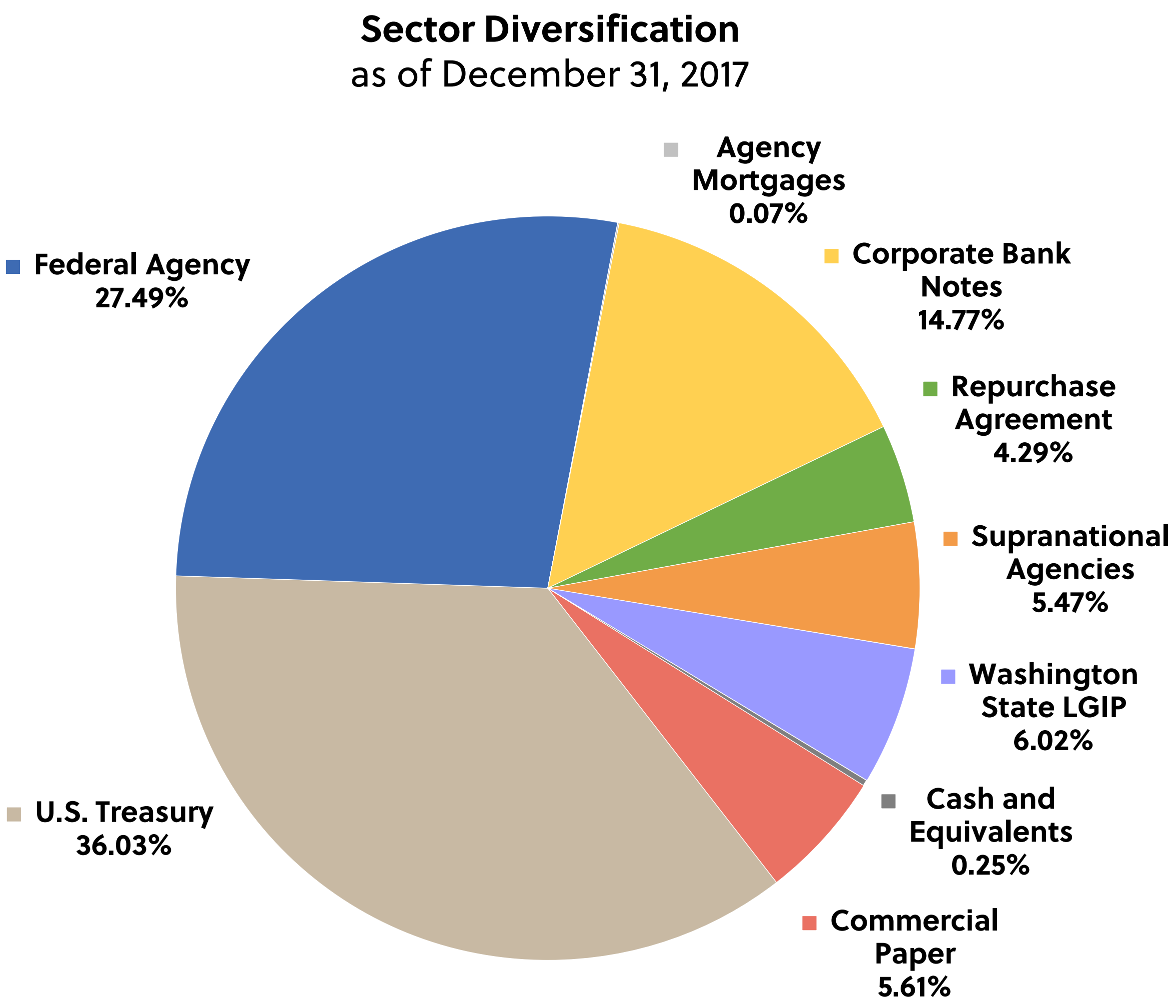
I. Investment Policy Compliance – County Investment Pool

Topic	Observations
Sector Allocation	• All sector allocations fall within the limits set forth by the County's Investment Policy Statement. The Pool is predominantly invested in U.S. government securities which are either explicitly guaranteed or carry a high level of support by the U.S. government. • The County's Investment Pool balance (market value) as of December 31, 2017 was $6.9 billion and it experienced a net increase of approximately $328 million over the quarter. • Over the quarter, sectors that experienced allocation percentage increases included: Supranational Agencies (+3.21%), Commercial Paper (+2.24%) and Repurchase Agreements (+1.06%). All sectors experiencing an increase over the quarter still remain within applicable policy limits. • Sectors that experienced decreases in quarter-over-quarter allocation percentages included: the Washington State LGIP (-2.93%), Corporate Notes (-1.50%), US Treasuries (-1.21%), as well as Federal Agencies (-0.70%).
Credit Quality	• Approximately 64% of the County pool's assets are guaranteed or supported by the U.S. government. Furthermore, 6% is invested in the State LGIP, where 61% of the LGIP is invested directly in U.S. Treasuries or Federal Agencies. Additionally, considering the County pool's holdings of repurchase agreements and bank accounts collateralized by government securities, the overall government-related credit quality exceeds 74%. • Corporate allocations (both commercial paper and corporate notes) increased over the quarter to over 20% of the portfolio, and all securities are investment grade. Allocations to corporates continue to be below the maximum allocation limit of 25%. • Total allocations of corporates and commercial paper also do not exceed the 50% allocation limit set forth in the County's Investment Policy, and ended the quarter at 20%.
Maturity Distribution	• All maturities fall within the limits set forth in the County's Investment Policy. • Approximately 55% of the Pool's assets mature in one year or less, well above the minimum of 40% that is mandated by the Investment Policy.

Security Type	Market Value($)	Allocation Percentage	Within Policy Limits	Max Maturity Held	Within Policy Limits
U.S. Treasury	2,486,956,350	36.03%	✓	3.09 years	✓
Federal Agency (non-MBS)	1,897,206,834	27.49%	✓	2.89 years	✓
Corporate Notes	1,019,746,840	14.77%	✓	3.61 years	✓
Washington State LGIP	415,634,055	6.02%	✓	1 day	✓
Commercial Paper	386,989,323	5.61%	✓	83 days	✓
Supranational Agencies	377,599,696	5.47%	✓	2.68 years	✓
Repurchase Agreements	296,000,000	4.29%	✓	1 day	✓
Cash and Equivalents	17,397,110	0.25%	✓	1 day	✓
Agency Mortgages	4,922,431	0.07%	✓	4.11 years (WAL)	✓
TOTAL	**$6,902,452,638**	**100.00%**			

**Percentages may not total to 100% due to rounding.*

II. Sector Allocation

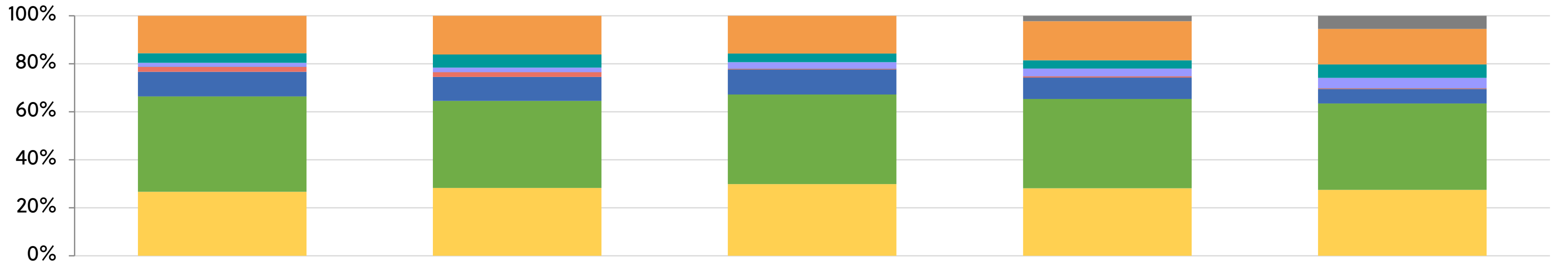


**Percentages may not total to 100% due to rounding.*

II. Changes in Portfolio Sector Allocation over the Past 12 Months

Changes in Sector Allocation

- The County's investment pool increased percentage allocations to Supranational Agencies (+3.21%), Commercial Paper (+2.24%) and Repurchase Agreements (+1.06%), while decreases occurred in the Washington State LGIP (-2.93%), Corporate Notes (-1.50%), US Treasuries (-1.21%), and Federal Agencies (-0.70%).
- U.S. Treasuries The dollar amount invested in U.S. Treasuries rose during the fourth quarter by $39 million. However, due to the substantial increase in assets in the portfolio, the overall allocation to the sector decreased by 1.2% over the quarter.
- Federal Agencies Federal agency allocations remained below U.S. Treasury allocations. Approximately $233 million of agency holdings matured during the quarter and $509 million was reinvested into the sector, particularly $230 million into Supranational Agencies.
- Corporate Notes The portfolio decreased allocations to corporate notes over the quarter, now accounting for 14.8% of the overall portfolio totaling approximately $1.0 billion.
- Commercial Paper Four new commercial paper issuers were added to the portfolio, totaling seven commercial paper issuers, which account for $387 million (or 5.6% of the total portfolio), representing an increase of $166 million over the quarter.
- Washington State LGIP Balances invested in the State LGIP decreased over the quarter by approximately $173 million, and continued to serve as the Pool's primary liquidity vehicle. This sector accounts for approximately 6.0% of the overall portfolio.
- Repurchase Agreements and Bank Deposits Allocations to repurchase agreements increased by $84 million over the quarter and account for 4.3% of the total portfolio. Bank deposits decreased by almost $11 million over the quarter to $17 million (or to 0.25% of the total portfolio).

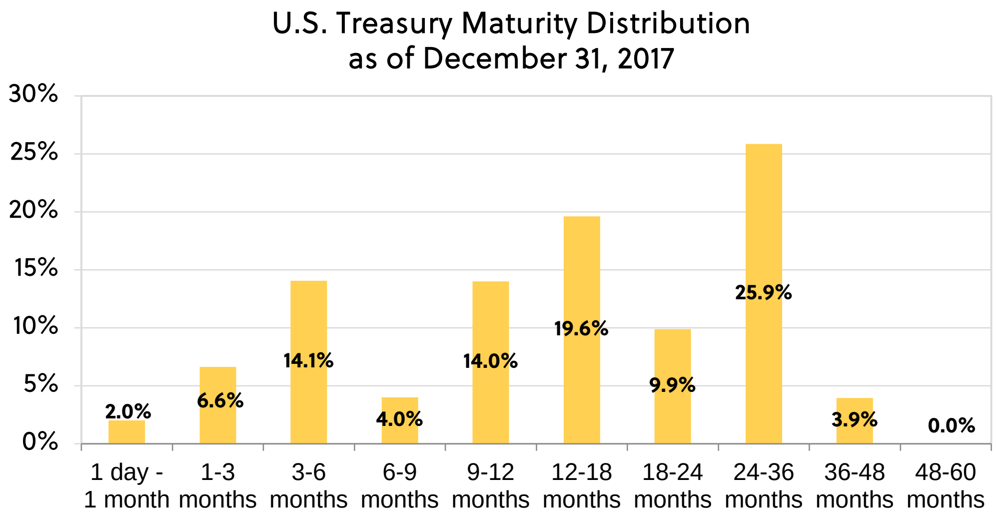


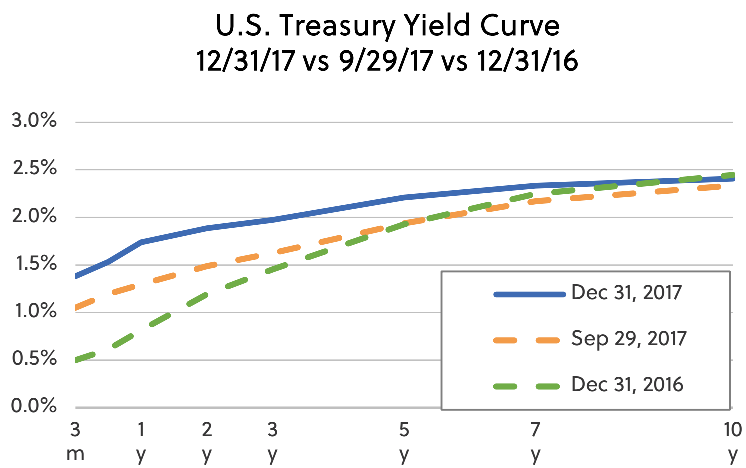
	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
U.S. Treasury	39.78%	36.23%	37.37%	37.24%	36.03%
Federal Agencies	26.63%	28.34%	29.87%	28.18%	27.49%
Washington State LGIP	10.28%	10.05%	10.44%	8.95%	6.02%
Cash and Equivalents	2.02%	1.91%	0.26%	0.43%	0.25%
Agency Mortgages	0.10%	0.09%	0.08%	0.08%	0.07%
Repurchase Agreements	1.62%	1.78%	2.67%	3.22%	4.29%
Commercial Paper	4.04%	5.54%	3.61%	3.36%	5.61%
Corporate Notes	15.53%	16.06%	15.70%	16.28%	14.77%
Supranational Agencies	0.00%	0.00%	0.00%	2.26%	5.47%

**Percentages may not total to 100% due to rounding.*

II. Sector Allocation – U.S. Treasury Securities

Topic	Observations
Observations	• The County's balances held in U.S. Treasuries decreased by 1.2% over the quarter, down to 36.0% of the total portfolio. — U.S Treasury index returns were positive over the fourth quarter. o The 10-year Treasury yield was up 7 bps while the two-year yield rose 40 bps. — The yield curve compressed to its flattest level since before the financial crisis, partially due to the Fed rate hike in December lifting the short end of the curve. — The majority of the Pool's Treasury investments ($1.5 billion, or 59.3% of all Treasury holdings) have remaining maturities of greater than one year and are positioned in the steeper portions of the U.S. Treasury yield curve. • The County's weighted average maturity (WAM) of its Treasury allocation increased over the quarter by 34 days, from 460 days on September 30th, to 494 days on December 31st. • The chart below, on the left, illustrates the current maturity distribution of the County's allocations to U.S. Treasuries and the chart on the right illustrates the current shape of the U.S. Treasury yield curve, compared to the yield curve three months ago and one year ago. — Of the County's Treasury holdings, 40.7% is allocated to maturities less than 12 months.





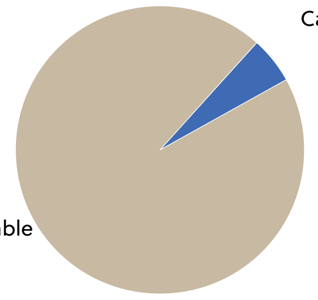
** Source Bloomberg Financial Systems*

II. Sector Allocation – Federal Agencies

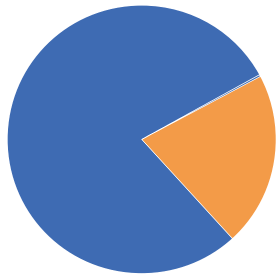
Topic	Observations			
Structure *(as % of Federal Agency Allocations)*	• Non-Callable • Callable	94.8% 5.2%	• Discount Notes • Coupon Bearing Notes • Agency Mortgage	21.0% 78.8% <1%
Diversification *(as % of Federal Agency Allocations)*	• Freddie Mac (FHLMC) • Federal Home Loan Bank (FHLB) • Fannie Mae (FNMA) • Supranational Agencies	25.9% 11.4% 16.6% 16.6%	• Federal Farm Credit Bank (FFCB) • Freddie Mac Mortgage-Backed (FHR) • Fannie Mae Mortgage-Backed (FNR)	29.4% 0% <1%

Conclusions	• The County's federal agency holdings continue to be well diversified. All issuer allocations fall within the issuer guidelines and security structures in the County's investment policy (max per agency issuer 35%).
	• The dollar amount invested in Federal Agencies rose during the fourth quarter by $44 million. However, due to the substantial increase in assets in the portfolio, the overall allocation to the sector decreased by 0.7% over the quarter.
	• From a security structure standpoint (the ratio of non-callable to callable securities), callable securities account for 5% of agency holdings.
	  – In the past quarter, the only two callable holdings experienced a call date, neither of which appeared to be called. These two holdings have their next call dates in January and March 2018.
	  – New agency note purchases during the quarter were all non-callable.
	• The County Pool's only remaining allocation to agency mortgages is in Fannie Mae pools, totaling approximately $4.9 million.			

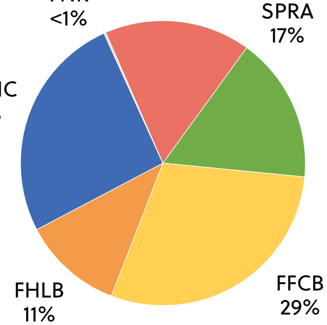
Callable vs. Non-Callable
as of December 31, 2017



Structure Distribution
as of December 31, 2017



Issuer Diversification
as of December 31, 2017

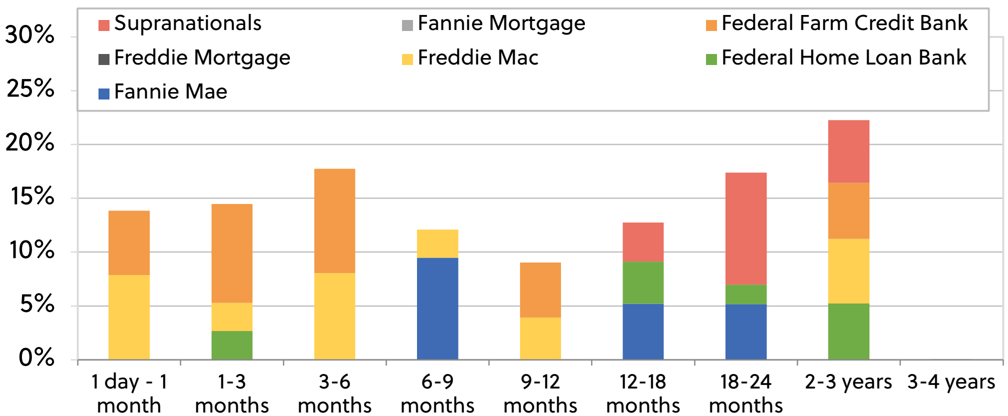


**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

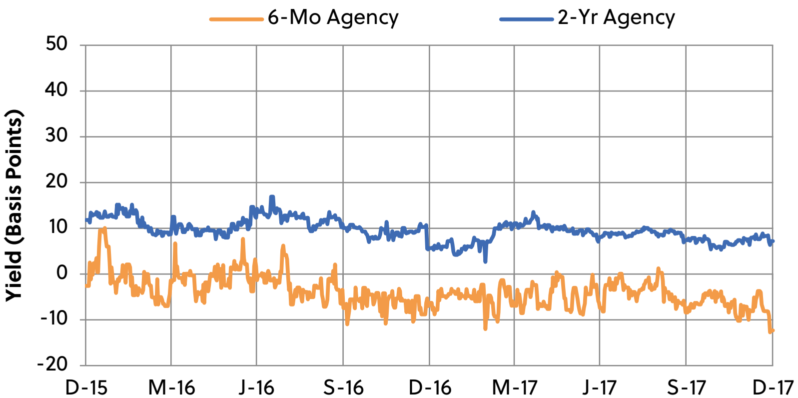
II. Sector Allocation – Federal Agencies

Topic	Observations
Maturity Distribution	• The County's federal agency maturity distribution falls within the limits set forth by the Investment Policy Statement. • Over the quarter, the County's weighted average maturity (WAM) of federal agency holdings increased by 33 days, from 358 days on September 30th to 391 days on December 31st. – The County prefers short-term federal agencies and longer-term U.S. Treasuries. This is evident by, as of December 31, 2017, 56% of agency allocations being invested in maturities less than 12 months, versus 41% of U.S. Treasury allocations. Of the agency and U.S. Treasury allocations invested in maturities under a year, 41% of federal agency allocations and 23% of U.S. Treasury allocations were invested in maturities less than 6 months. – Conversely, while 44% of agency allocations were invested beyond 1 year, 59% of Treasury allocations were invested beyond 1 year. – Agency spreads remain tight so while value exists in price concessions when new issues are first traded, the supranational sector offers additional income benefit relative to both Treasury and agency securities. o The overweight to shorter-term agencies can be attributed to the combination of: (1) Previously purchased longer-term agencies being held and naturally drifting shorter, and (2) Targeting purchases of longer-term Treasuries due to the relatively tight yield spreads between agency and Treasury securities of similar maturity beyond 2 years. That is, yields of 2-year agencies and Treasuries are relatively close, and in these instances, the U.S. Treasury security is typically preferred for this area of the yield curve.

Federal Agency Maturity Distribution by Name
as of December 31, 2017



Federal Agency Yield Spreads
Past 24 Months



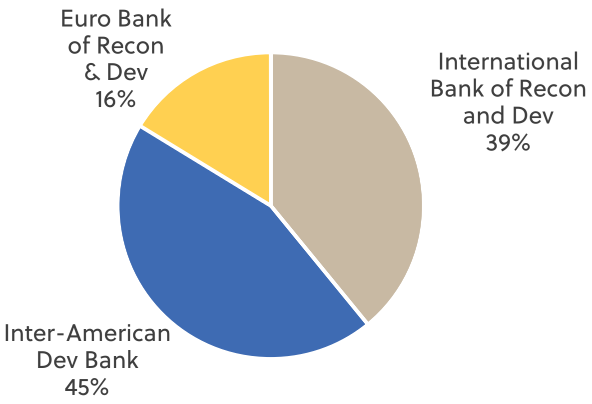
* Source Bloomberg Financial Systems

- *Agency Mortgage maturities are calculated as average life. Average life data taken from Bloomberg Financial Markets*
- *Callable securities are shown to their next call date.*
- *All other Agency maturities are calculated as days to maturity.*

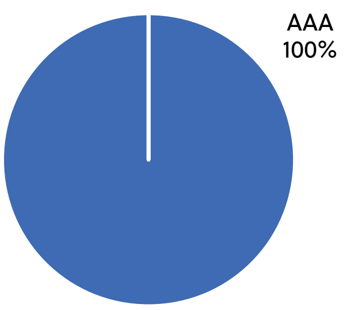
II. Sector Allocation – Supranational Agencies

Topic	Observations
Maturity Distribution	• For the second time, the County added Supranational Agency issues. These holdings are of high credit quality, being backed by various member countries and are created in order to support economic development and poverty reduction. • The County added two additional Supranational issuers over the quarter, the Inter-American Development Bank and the European Bank for Reconstruction and Development, both rated AAA by Standard & Poor's. — The U.S. is the largest country from a shareholder perspective for all three Supranational issuers, meaning the U.S. has the largest decision making power, and these securities are considered to have been issued by federal instrumentalities. • By continuing to invest in this new sector, the County is able to diversify the portfolio and add to its high credit quality. — Supranational holdings that were purchased targeted the 1.5- to 2.5-year maturity range.

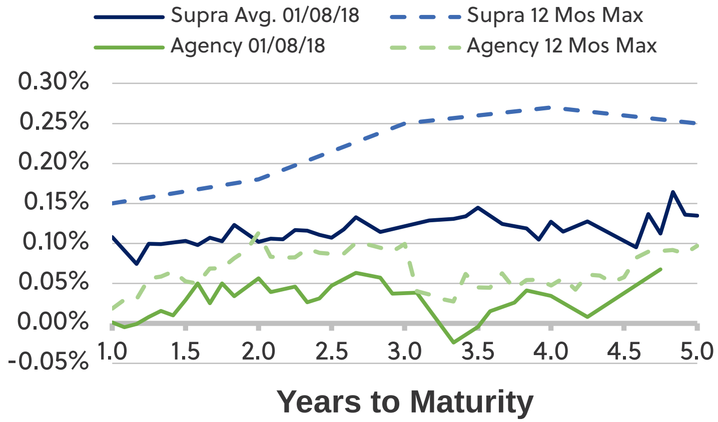
Issuer Distribution as of December 31, 2017



Credit Distribution as of December 31, 2017



Supranational Agency vs. Federal Agency Yield Spreads

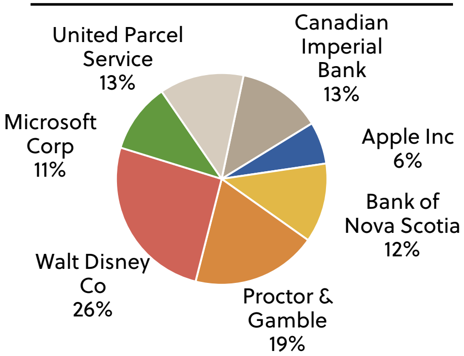


** Source Bloomberg Financial Systems*

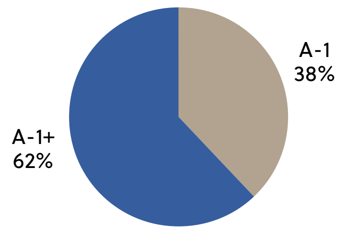
II. Sector Allocation – Commercial Paper

Topic	Observations
Issuer Diversification	• The County's allocation to commercial paper increased over the quarter, by approximately $166 million, and now accounts for 5.6% of the total portfolio, up from 3.4% at the end of the third quarter. • The portfolio added four new commercial paper issuers: Microsoft Corp, Walt Disney Co, United Parcel Service, and Proctor & Gamble. Three other issuers were also held during the quarter: Apple Inc, Canadian Imperial Bank, and the Bank of Nova Scotia. • The incremental yield offered by commercial paper is now modest but continues to outperform compared to similar term government securities. – "Rolling" short-term commercial paper is an attractive investment strategy relative to most other short-term permitted investment options in the current fixed income market.
Credit Distribution	• Standard & Poor's rates the short-term credit of Microsoft Corp, Apple Inc., Proctor & Gamble and Walt Disney as A-1+, and United Parcel Service, Bank of Nova Scotia, and Canadian Imperial Bank each as A-1. • Moody's rates the short-term credit of all of the County's CP issuers as P-1.
Conclusions	• High-quality commercial paper has offered a noticeable yield advantage relative to similar maturity Treasury and agency securities over the past several years. This yield advantage of commercial paper is even more pronounced at longer maturities and has grown with regulatory changes to money market mutual funds. • From an overall portfolio duration perspective, utilizing short term commercial paper helps the County to offset the purchasing of longer term securities. These commercial paper investments generally offer greater yields than other short term securities and overnight investments.

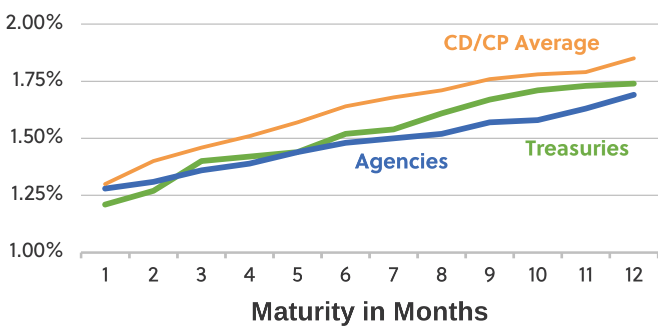
Issuer Distribution
as of December 31, 2017



Credit Distribution
as of December 31, 2017



Current Short-Term Yields
as of December 31, 2017



* Source Bloomberg Financial Systems

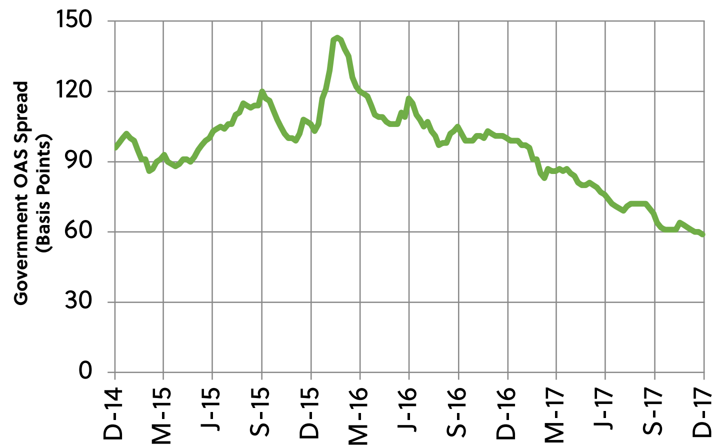
*All calculations above are based on total cash equivalents exposure, not overall Portfolio.
**Percentages may not total to 100% due to rounding.

II. Sector Allocation – Corporate Notes

Topic	Observations
Issuer Diversification	• The County decreased allocations over the quarter to high-quality corporate notes. This sector accounts for 14.8% of the overall portfolio totaling approximately $1.0 billion. • When viewing the County's corporate note holdings to the next call date, the weighted average maturity of these investments is 1.3 years. • Of the County's total allocation to this sector, 72% is held in maturities beyond 1 year. • On May 10, 2017 Moody's Investors Service downgraded the long-term credit ratings of six Canadian banks and their affiliates, reflecting Moody's expectation of a more challenging operating environment for banks in Canada for the rest of 2017 and thereafter, which could lead to deterioration in their asset quality and an increase sensitivity to external shocks. ** — Investments in issuers rated in the broad single A category are restricted, per the investment policy, to a maximum of 2% per issuer, putting Royal Bank of Canada just slightly over the policy limit per the new Moody's downgrade, highlighted below. — However, since all RBC notes were purchased prior to 9/15/16, they are grandfathered for purposes of issuer limits and can be held to maturity.

Credit & Issuer Distribution	S&P Short	S&P Long	Moody's Short	Moody's Long	% of Corporate Holdings	% of Portfolio
Royal Bank of Canada	A-1+	AA-	P-1	A1	13.64%	2.02%
Toronto Dominion Bank	A-1+	AA-	P-1	Aa2	13.53%	2.00%
Microsoft Corp	A-1+	AAA	P-1	Aaa	11.65%	1.72%
Wells Fargo Bank	A-1+	AA-	P-1	Aa1	9.27%	1.37%
PNC Bank	A-1	A	P-1	Aa2	9.26%	1.37%
Bank of Montreal	A-1	A+	P-1	A1	8.36%	1.24%
US Bank	A-1+	AA-	P-1	Aa1	5.39%	0.80%
Proctor & Gamble Co	A-1+	AA-	P-1	Aa3	5.38%	0.79%
Bank of Nova Scotia	A-1	A+	P-1	A1	4.41%	0.65%
Bank of America	A-1	A+	P-1	Aa3	4.41%	0.65%
JP Morgan Chase	A-1	A+	P-1	Aa2	4.17%	0.62%
Apple Inc.	A-1+	AA+	P-1	Aa1	3.31%	0.49%
Canadian Imperial Bank	A-1	A+	P-1	A1	2.91%	0.43%
Colgate-Palmolive Co	A-1+	AA-	P-1	Aa3	2.84%	0.42%
Walt Disney Co	A-1+	A+	P-1	A2	1.47%	0.22%

1-5 Year Financial Corporate/Treasury Yield Spreads
December 2015 through December 2017



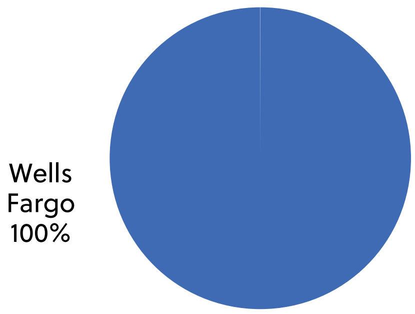
** Source Bloomberg Financial Systems*

**Percentages may not total to 100% due to rounding.*
***Source Moody's*

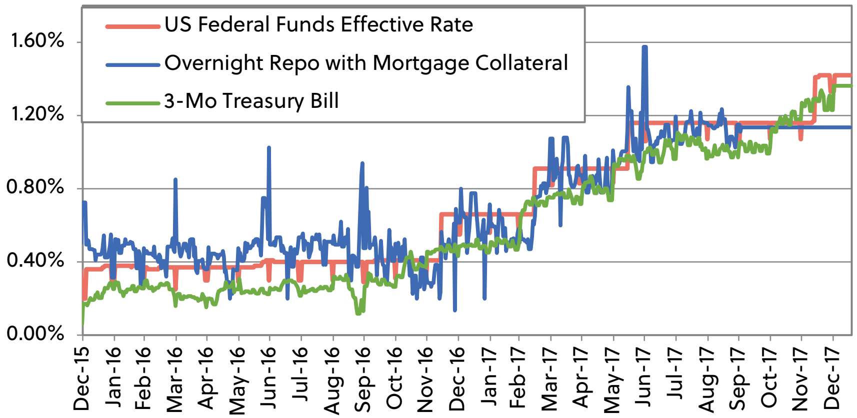
II. Sector Allocation – Repurchase Agreements

Topic	Observations
Issuer Diversification	• The County has been increasing tri-party repurchase agreement exposure over the past year and ended December with 4.3% of the portfolio allocated to the sector. • The portfolio utilizes one repo counterparty, Wells Fargo Bank, with an allocation of $296 million at December 31, 2017, up $84 million from the previous quarter-end. • This allocation falls within the permitted investment guidelines of 25% per issuer and 100% maximum to the sector.
Credit Distribution	• Standard & Poor's rates Wells Fargo's short-term issuer credit as A-1+. • While Wells Fargo maintains very high-quality ratings from S&P, the ultimate quality of the repurchase agreement depends on the underlying collateral.
Conclusions	• Similar to the past few quarters, the County continues to utilize just one repo counterparty holding, Wells Fargo. • As of December 31, 2017, the repurchase agreement yield was 1.39%, which is an additional 8 bps over last quarter.

Issuer/Credit Distribution
as of December 31, 2017



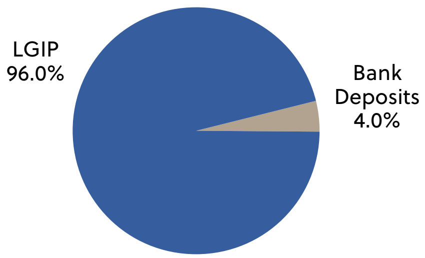
Short-Term Yields
December 2015 through December 2017



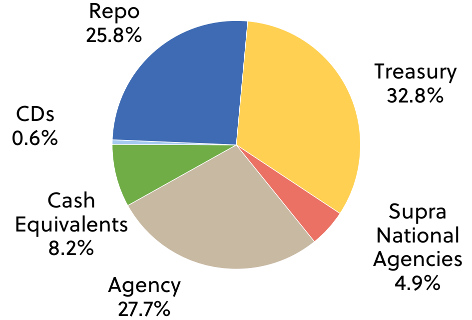
II. Sector Allocation – LGIPs and Cash Equivalents

	Underlying Investments	Rating (Short-Term: S&P/ Moody's/Fitch)	Observations
Washington State LGIP	• U.S. Treasuries 32.8% • Federal Agencies 27.7% • Supra National Agencies 4.9% • Repurchase Agreements 25.8% • Certificates of Deposit 0.6% • Cash Equivalents 8.2% *As of December 31, 2017*	• N/A	• The County currently has allocated $416 million to the Washington State LGIP, which is a decrease of approximately $173 million over the previous quarter. • The County's allocation to the State LGIP continues to serve as the primary source of overnight liquidity for the portfolio. • The State LGIP decreased Agency holdings by approximately 25.6% and increased US Treasuries by 17.3%, as well as repurchase agreements by 10.5%. All other sectors experienced modest 1-2% changes in percentage allocations over the quarter.
Cash Equivalents	• State LGIP 96.0% • U.S. Bank 2.4% • Key Bank 1.6% • Bank of America 0.1%	• U.S. Bank: A-1+/P-1/F1+ • Key Bank: A-2/P-2/F-1 • Bank of America: A-1/P-2/F-1	• The County's deposit accounts at U.S. Bank, Key Bank, and Bank of America are FDIC-insured up to FDIC limits, and are collateralized by the Public Deposit Protection Commission. • The County decreased its allocation to bank deposits by approximately $11 million over the quarter, down to $17 million. The U.S. Bank account represents 59% of the Pool's bank deposits (Key Bank 40% and Bank of America 1%). • Additionally, while the County pool is limited to CDs issued by banks in the State of Washington, there still may be an opportunity to add small allocations to CDs, as this sector continues to provide incremental yield advantages relative to many shorter-term investment options of similar maturity.

Cash Equivalents Distribution
as of December 31, 2017



Washington State LGIP Sector Distribution
as of December 31, 2017



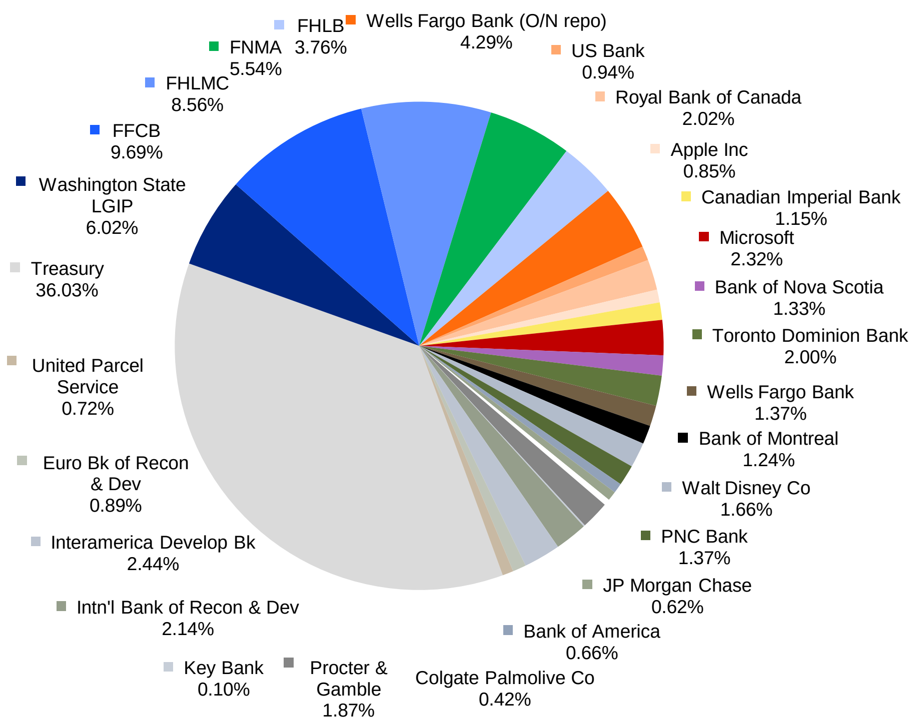
**All calculations above are based on total cash equivalents exposure, not overall Portfolio.*
***Percentages may not total to 100% due to rounding.*

III. Issuer Concentration

Issuer Exposure

- The County continues to maintain a well-diversified portfolio by issuer, as is evidenced by the chart below.
- Approximately 64% of the portfolio is allocated directly to U.S. government guaranteed or government supported entities.
- Of the remaining 36% of the portfolio, 11% is allocated to ultra short-term or overnight investment vehicles, including the State LGIP, repurchase agreements, and bank deposits and 5% is allocated to Supranational Agency holdings. The remaining 20% is allocated to credit issuers, including commercial paper and corporate notes.
- The County continued to diversify its credit issuers over the quarter with purchases of United Parcel Service, which has been an issuer consistently used by the County.
- New Supranational Agency holdings were purchased, adding two new issuer to the County's portfolio, Inter-American Development Bank & the European Bank of Reconstruction & Development.

Issuer Distribution	Value	Percentage	Issuer Limit
Treasury	2,486,956,350	36.03%	100%
FFCB	669,049,258	9.69%	35%
FHLMC	591,170,386	8.56%	35%
Washington State LGIP	415,634,055	6.02%	25%
FNMA	382,333,614	5.54%	35%
Wells Fargo Bank (O/N repo)	296,000,000	4.29%	25%
FHLB	259,576,006	3.76%	35%
Inter-American Develop Bk	168,511,886	2.44%	35%
Microsoft	160,022,585	2.32%	5%
Intn'l Bank of Recon & Dev	147,605,500	2.14%	35%
Royal Bank of Canada	139,090,850	2.02%	5%
Toronto Dominion Bank	137,945,298	2.00%	5%
Procter & Gamble	129,053,839	1.87%	5%
Walt Disney Co	114,800,375	1.66%	5%
Wells Fargo Bank	94,579,000	1.37%	5%
PNC Bank	94,427,062	1.37%	5%
Bank of Nova Scotia	91,863,748	1.33%	5%
Bank of Montreal	85,245,722	1.24%	5%
Canadian Imperial Bank	79,609,950	1.15%	5%
US Bank	65,188,503	0.94%	5%
Euro Bk of Recon & Dev	61,482,310	0.89%	35%
Apple Inc	58,624,536	0.85%	5%
United Parcel Service	49,980,875	0.72%	5%
Bank of America	45,259,401	0.66%	5%
JP Morgan Chase	42,555,772	0.62%	5%
Colgate Palmolive Co	28,990,101	0.42%	5%
Key Bank	6,895,656	0.10%	5%
Total	$6,902,452,638	100.00%	



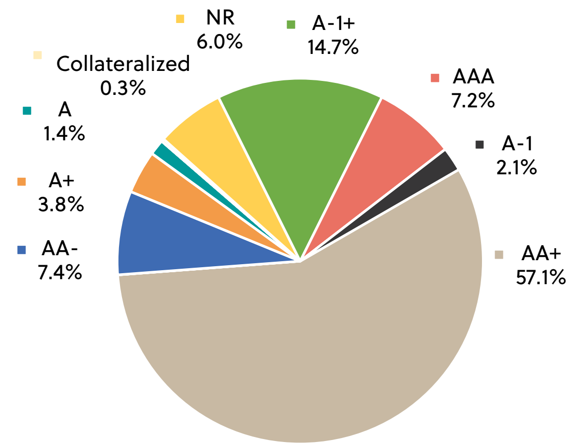
Percentages may not add to 100% due to rounding.
** For the purposes of totaling issuer concentration, issuers are aggregated across all sector types. It is noted however that issuers across sector types may maintain separately rated issuer credits.*

IV. Overall Credit Quality

County Investment Pool Credit Analysis

- The County Pool's overall average credit position remains very strong and is primarily concentrated in U.S. government guaranteed and/or supported securities which maintain a long-term credit rating of AA+ by Standard & Poor's and federal agency discount notes, which maintain a short-term credit rating of A-1+ by S&P.
- The County increased its credit exposure through commercial paper and corporate notes over the quarter, ending at approximately 20.4% of the portfolio.
  - Commercial paper now accounts for 5.6% of the entire portfolio, while corporate notes account for 14.8%.
- Allocations were maintained to corporate notes for all previously held issuers and commercial paper allocations were maintained for Canadian Imperial Bank, Bank of Nova Scotia, and Apple Inc.
  - New commercial paper issuers were added over the quarter, including Microsoft Corp, Walt Disney Co and United Parcel Service.
  - Corporate note allocations held throughout the quarter have ratings of A/A1 or higher.
  - Commercial paper allocations are all rated A-1/P-1 or higher.
- On May 10, 2017 Moody's Investors Service downgraded the long-term credit ratings of six Canadian banks and their affiliates, reflecting Moody's expectation of a more challenging operating environment for banks in Canada for the rest of 2017 and thereafter, which could lead to deterioration in their asset quality and an increase sensitivity to external shocks. **
  - Investments in issuers rated in the broad single A category are restricted, per the investment policy, to a maximum of 2% per issuer, putting Royal Bank of Canada just slightly over the policy limit per the new Moody's downgrade.
  - However, since all RBC notes were purchased prior to 9/15/16, they are grandfathered for purposes of issuer limits and can be held to maturity.
- The 6.0% NR allocation represents the County's investment in the Washington State LGIP, which is not currently rated by any ratings agency.
- The County's investment in the Washington LGIP includes indirect corporate exposure:
  - Through the LGIP, 1.6% of the County's Pool is allocated indirectly to corporate securities (repurchase agreements and certificates of deposit).

Total Pool Credit Distribution*
as of December 31, 2017



Corporate/CP Issuer Ratings Table
as of December 31, 2017

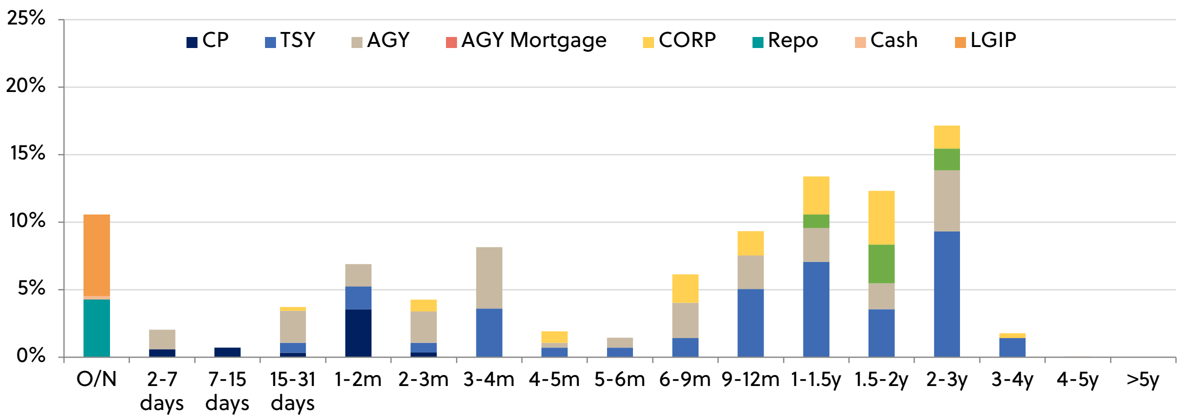
Issuer Distribution	Sectors Invested	S&P Short	S&P Long	Moody's Short	Moody's Long
Royal Bank of Canada	Corp	A-1+	AA-	P-1	A1
Microsoft	Corp/CP	A-1+	AAA	P-1	Aaa
US Bank	Corp	A-1+	AA-	P-1	A1
Toronto Dominion Bank	Corp	A-1+	AA-	P-1	Aa2
Wells Fargo Bank	Corp	A-1+	AA-	P-1	Aa1
PNC Bank	Corp	A-1	A	P-1	Aa2
Bank of Montreal	Corp	A-1	A+	P-1	A1
Bank of Nova Scotia	Corp/CP	A-1	A+	P-1	A1
Walt Disney Co	Corp/CP	A-1+	A+	P-1	A2
Bank of America	Corp	A-1	A+	P-1	Aa3
JP Morgan Chase	Corp	A-1	A+	P-1	Aa2
Apple Inc.	Corp/CP	A-1+	AA+	P-1	Aa1
Canadian Imperial Bank	Corp/CP	A-1	A+	P-1	A1
Colgate-Palmolive Co	Corp	A-1+	AA-	P-1	Aa3
Proctor & Gamble Co	Corp	A-1+	AA-	P-1	Aa3
United Parcel Service	CP	A-1-	A+	P-1	A1

**Ratings by S&P; percentages may not add to 100% due to rounding.*
*** Source Moody's*

V. Maturity Distribution

Maturity Distribution	Observations
Weighted Average Maturity ("WAM")	• The County continues to diversify holdings across its permitted maturity range, as seen in the chart below. • A majority of the holdings – 55% of the portfolio – are scheduled to mature or have a call date within the next twelve months, in line with the previous quarter-end and well above the 40% mandated by the investment policy. • It appears the County's maturity strategies over the past several quarters have included: – Allowing previously purchased, longer-dated U.S. Treasury, federal agency, and corporate bank note investments to naturally shorten in maturity and roll-down the yield curve. – Targeting purchases in the following spaces: o Supranational agencies totaling $230 million in the 1.5- to 2.5-year range, as well as Federal Agency purchases in the 1-3 year maturity range totaling $280 million. o US Treasury purchases targeting the 3-year maturity range totaling $346 million. • The WAM of the portfolio ended the first quarter at 378 days, up slightly from 363 days at previous quarter-end. – The increase in portfolio WAM can primarily be attributed to additional supranational agency purchases in the 1.5- to 2.5-year maturity range.
Liquidity	• The County Pool appears to provide adequate liquidity, both in terms of final maturities and the sectors in which the Pool has invested. In addition to the 10.6% (or $729 million) invested in a combination of the Washington State LGIP, bank deposits, and repurchase agreements (overnight liquidity), an additional 4.5% of the portfolio's holdings are scheduled to mature within the next thirty-one days.

Maturity Distribution as of December 31, 2017



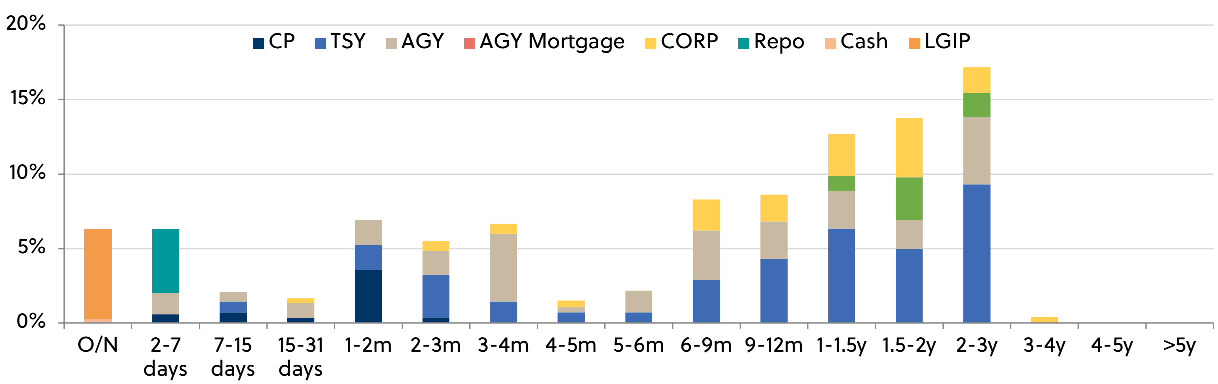
Contribution to Maturity		
Sector	**12/31/17**	**09/30/17**
AGY SPRA	37.55	18.39
Cash	0.00	0.00
CORP	68.90	78.72
CP	1.90	3.65
AGY	90.58	89.78
LGIP	0.06	0.09
AGY Mortgage	1.07	1.04
REPO	0.04	0.10
TSY	178.10	171.45
Maturity:	**378 days**	**363 days**

Agency Mortgage maturities are reported as average life. Average life data taken from Bloomberg Financial Markets
Callable securities shown to their call date.
All other security maturities are reported as days to maturity. WA LGIP is considered to have a one day maturity.

V. Duration Distribution

Duration Distribution	Observations
Definition	• Duration is a measure of the sensitivity of the value of principal of an investment to a change in interest rates. The value of a portfolio with a higher duration is more sensitive to interest rate increases and decreases. • Duration is often quoted in years and is commonly used as a measure of the market risk of a security or portfolio. Duration can be derived in a number of ways; please refer to the notes at the bottom of this page for details.
Duration	• The portfolio's weighted average duration is within the IPS guidelines (no greater than 1.5 years). • As of December 31st, the duration of the County Investment Pool was 1.01 years, a slight increase from the previous quarter which ended at 0.98 years. — The increase in portfolio duration can be attributed to supranational agency purchases in the 1.5- to 2.5- year maturity range. • For performance and duration comparison purposes, the portfolio is measured against a blended benchmark consisting of 40% Bank of America Merrill Lynch 3-Month Treasury Index and 60% Bank of America Merrill Lynch 1-3 Year Treasury & Agency Index. — Due to the amount of purchases in the 1- to 3- year range, the Pool extended duration over the quarter from 85% for the third quarter of 2017, to 89% of the benchmark's duration of 1.14 years for the fourth quarter. — In anticipation of continued rising rates, a more defensive duration bias helps mitigate the adverse impact that potential interest rate increases may have on market value.

Duration Distribution as of December 31, 2017



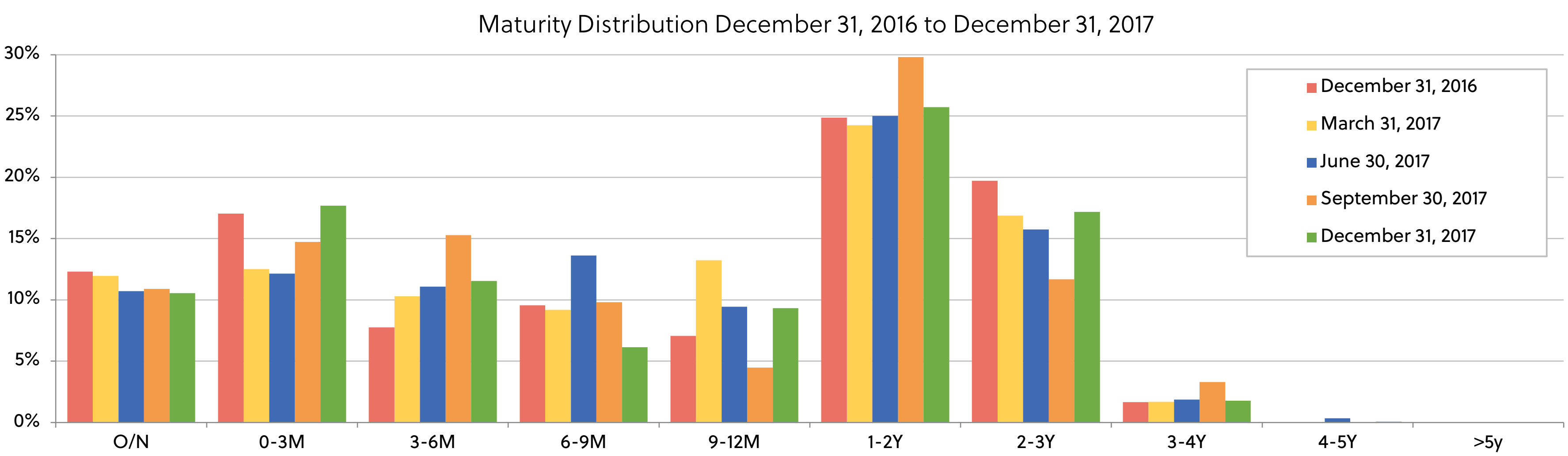
Contribution to Duration		
Sector	12/31/17	09/30/17
AGY SPRA	0.10	0.05
Cash	0.00	0.00
CORP	0.18	0.21
CP	0.01	0.01
AGY	0.25	0.25
LGIP	0.00	0.00
AGY Mortgage	0.00	0.00
REPO	0.00	0.00
TSY	0.47	0.46
Duration:	**1.01 years**	**0.98 years**

Agency Mortgage durations are shown as effective duration taken from Bloomberg Financial Markets.
Duration for Federal Agency Discount Notes and Repurchase Agreements are calculated as days to maturity. WA LGIP and bank deposits considered to have a one day duration.
All other security durations are calculated as effective duration as given by Bloomberg Financial Markets.

V. Changes in Portfolio Maturity Distribution

Changes in Portfolio Maturity Distribution

- When viewing the current maturity distribution (green bars) in relation to previous periods, a few primary observations are noted:
  - It appears the County targeted increased allocations in the 0- to 3-month and 2- to 3-year portion of the yield curve during the fourth quarter of 2017.
    - The increase in allocations to the 0- to 3-month range is due to naturally shortening of the portfolio, paired with commercial paper purchases over the quarter.
    - Similarly, increases to the 2- to 3-year maturity range is due to purchases of US Treasury and agency holdings, notably, additional supranational agencies in the 1.5- to 2.5-year maturity range.
    - Targeting these areas of the curve could offer additional income potential and roll-down opportunities, which add value in a rising rate environment.
  - Overnight allocations remained fairly steady over the quarter.
- Seasonality of cash flows is critical to maturity distribution and liquidity management and the following is a snapshot of the historical cash flow averages for upcoming quarters.
  - Over the past five years, for the quarters ending March 31, the average net <u>outflow</u> from the Investment Pool was $192 million.
  - Over the past five years, for the quarters ending June 30, the average net <u>inflow</u> to the Investment Pool was $575 million.



Agency Mortgage maturities are reported as average life. Average life data taken from Bloomberg Financial Markets
Callable securities shown to their call date.
All other security maturities are calculated as days to maturity. WA LGIP is considered to have a one day maturity.

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